

# LAS VEGAS | NEVADA RESEARCH & FORECAST REPORT



## Office Market Review

Southern Nevada's office market could not maintain the pace set in the second and third quarters of 2011, with the final quarter of the year bringing negative net absorption and an increase in vacancy. That the third quarter of 2011's performance could not be matched is not entirely surprising, since most of the positive net absorption experience in that quarter could be attributed to two events: The completion of the new Metropolitan Police Department Headquarters and the sale of 100,000 square feet to Ameriprise Financial. That being said, gross absorption took a nose dive in the fourth quarter, suggesting that everyone who was going to expand in 2011 did it earlier in the year.

According to the Nevada Department of Employment, Training & Rehabilitation, between November 2010 and November 2011, a net of 4,800 jobs were created in sectors traditionally associated with office space. The Professional & Business Services sector added 4,100 jobs over the past 12 months, while the Health Care & Social Assistance sector added 4,400 jobs over the same period. The Financial Activities sector continued to shed jobs at a quick pace, losing 3,700 jobs over the past twelve months. Unfortunately, year-over-year gains in jobs are starting to flag, an object of concern to a market desperately in need of recovery. Unemployment in the Las Vegas-Paradise MSA stood at 12.5 percent in November 2011.

Office completions in the fourth quarter of 2011 included a 4,500 square foot Class C building on Horizon Ridge in Henderson and a 20,000 square foot medical building in the Southwest submarket. The remaining buildings at Horizon Ridge Professional Park were in various stages of construction or planning, and a new downtown Class A property at 501 S. Las Vegas Blvd, the Federal Justice Tower, broke ground. This tower will house various government entities and is a cooperative effort between the City of Las Vegas Redevelopment Agency and developer Steve Biagiotti of SDA Inc. Southern Nevada is a prime candidate for build-to-suits, given that the availability of existing 50,000 square foot contiguous spaces is scarce and land prices are low.

### MARKET INDICATORS

	Q4-11	Projected Q1-12
VACANCY	↑	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↓	↓
RENTAL RATE	↓	↓

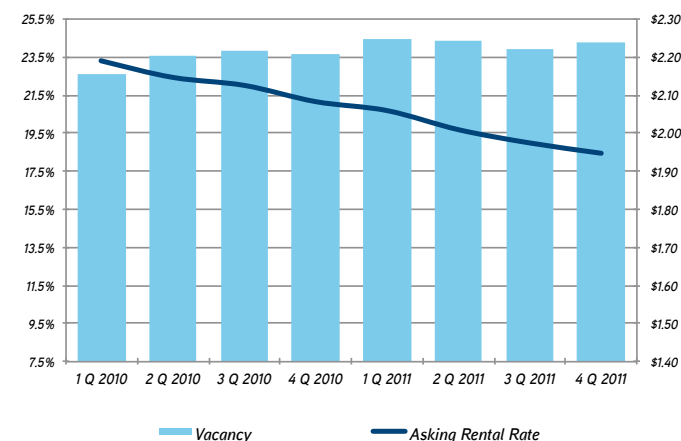
### CLARK COUNTY ECONOMIC DATA

	Current Q4-11	Year Ago Q4-10
Unemployment Rate	12.5%	14.8%
Visitor Volume*	30,100,000	29,045,000
Gaming Revenue*	\$6.9 B	\$6.7 B
Taxable Sales YTD*	\$22.1 B	\$21.0 B
Commercial Occupancy	83.7%	83.6%
New Home Sales YTD*	2,685	3,752

\*Q3 is the latest available

SOURCE: THE CENTER FOR BUSINESS & ECONOMIC RESEARCH, UNLV

### HISTORICAL VACANCY AND ASKING RATES



"The story of 2012 might turn out to be the reinvigoration of the Downtown submarket, which has for many years played second fiddle to the suburban submarkets in terms of office space."



Office vacancy in Southern Nevada is now 24.3 percent, slightly higher than one year ago and frustrating the market's chances for a positive 2011. The highest vacancy rates in Southern Nevada were in Northwest (28.2 percent), North Las Vegas (27.1 percent) and East Las Vegas and the Southwest (26.3 percent). Downtown continued to boast the market's lowest vacancy rate at 12.5 percent. All of the submarkets in Southern Nevada posted an increase in vacancy as demand for space in the fourth quarter plunged.

Despite serious challenges to the industries that commonly occupy it, Class A office space posted a decrease in vacancy over the course of 2011, ending the year at 31 percent vacant, a 1.5 point drop from the end of 2010. Class C's vacancy increased by 0.2 points in 2011 over 2010, and Class B posted the worst performance overall, with vacancy rising 1.9 points to 22.5 percent. Despite this increase in vacancy, Class B space continued to have the lowest vacancy among office classes for the time being.

Net absorption was a negative 126,628 square feet this quarter, the second lowest quarterly net absorption in 2011, but especially distressing

given the positive trend seen in the second and third quarters of the year. Despite negative performance at the beginning and ending of the year, 2011 managed to post positive net absorption of 128,055 square feet for the year as a whole, the first positive yearly net absorption since 2007, when 2.4 million square feet of office was absorbed.

Class A had the best performance among office classes this year, with 195,000 square feet of net absorption. Class B office had the lowest yearly net absorption at negative 90,000 square feet, while Class C posted a forgettable negative 11,000 square feet of net absorption. The submarkets that were most in demand this year were Airport, Downtown (mostly due to the Metro HQ completion) and Southwest, combining for 528,000 square feet of positive net absorption. On the other hand, tenants were leaving Henderson, East Las Vegas and West Central, which combined for 395,000 square feet of negative net absorption.

Gross absorption, which has been erratic over the past three years, was especially anemic in the fourth quarter of 2011, with only 707,000 square feet being occupied over the course of the

#### OFFICE MARKET SUMMARY

	Q4-11	Q3-11	Q4-10
Vacancy Rate	24.3%	23.9%	23.7%
Asking Rent (PSF, FSG)	\$1.95	\$1.97	\$2.08
Net Absorption (SF)	-126,628	422,695	56,099
New Completions (SF)	45,579	312,444	25,000

#### LEASE AND SALES ACTIVITY

##### LEASE ACTIVITY

PROPERTY NAME	LEASE DATE	LEASE TERM	SIZE	LEASE RATE	TYPE
Marnell Corporate Center	Oct 2011	60 months	6,900 sf	\$2.42 FSG	Class A Office
Stephanie Beltway Centre	Oct 2011	60 months	2,800 sf	\$2.72 MG	Class B Office
Meyer Building	Dec 2011	14 months	1,900 sf	\$0.96 NNN	Class C Office

##### SALES ACTIVITY

PROPERTY NAME	SALE DATE	SALE PRICE	SIZE	PRICE/SF	TYPE
Westbay at Charleston	Oct 2011	\$7,800,000	107,000 sf	\$73	Class B Office
Lawyer's Title Plaza	Nov 2011	\$2,800,000	42,000 sf	\$67	Class C Office
Great American Plaza	Nov 2011	\$1,885,000	26,000 sf	\$73	Class B Office
Sahara Vista	Oct 2011	\$955,000	16,000 sf	\$61	Class B Office
The Park at Spanish Ridge 30	Nov 2011	\$899,000	10,000 sf	\$88	Class C Office

quarter. This was approximately equal to the gross absorption seen in the first quarter of 2011 and was about half of the gross absorption seen in the second and third quarters of this year. For the year as a whole, 2011 had almost 500,000 square feet more gross absorption than 2010. 2012 might be a tricky year for the office market, with many potential buyers and tenants sitting out and waiting to see which direction the nation goes in the November elections.

Of the office deals we have tracked so far in 2011, the most active industries have been Real Estate Services (a welcome return, but frightening considering the recession from which Southern Nevada is slowly emerging), Education & Social Services, Professional Services, Legal Services and Financial Services. Local companies made up 47 percent of the tenants taking space so far this year and 53 percent of the total office space taken. National companies made up 32 percent of the tenants taking space and 26 percent of the total office space taken. California companies are coming to Southern Nevada in about the same numbers in 2011 as 2010, accounting for 19 percent of the deals we have recorded so far in 2011, compared to 20 percent in 2010.

The amount of distressed office space (i.e. office properties that have received a notice of default or are at some stage in the foreclosure process) decreased again this quarter to 5.1 million square feet, a decrease of 77,000 square feet from last quarter. More importantly, there is now less distressed office space in 2011 than there was in 2010, a clear sign that Southern Nevada is attracting real estate investment once again, even if those investors are primarily hunting for bargains. In all, 1,727,000 square feet of distressed office product has sold so far in 2011 at an average sales price of \$87 per square foot. Pricing is still compressed for these sales, and we are finding a flight not to quality, but to efficiency and economy. As these properties are cycled back into the mainstream leasing market, they should continue to depress asking lease rates, though perhaps not by as much as tenants would like.

The weighted average asking rental rate decreased this quarter to \$1.95 per square foot

(psf) on a full service gross (FSG) basis. This was a decrease of \$0.13 from twelve months ago. Asking rents have been declining since the onset of the Great Recession in 2007/2008. The largest decrease in asking rents in 2011 was for Class A office, which saw its average asking rent drop from \$2.70 psf FSG in the fourth quarter of 2010 to \$2.49 psf FSG in the fourth quarter of 2011. Class B saw a \$0.14 psf drop in asking rents over the same period, and Class A experienced a \$0.10 psf drop. With the national and global economies still on uneasy footing, tenants continue looking to hold down their bottom lines for maximum security when the next unavoidable economic shock occurs. This cautious attitude should keep asking rents trending downward through 2012.

The amount of office space available for sublease has decreased since the fourth quarter of 2010 to 345,000 square feet. That being said, available sublease space has been on the rise in the past two quarters, and given the fact that sublease space can play the role of the canary in the coal mine, this is not a welcome development.

## EMPLOYMENT

	Nov 2011	Nov 2010	Change
Financial Activities	35,400	39,100	-3,700
Professional & Business Services	104,200	100,100	+4,100
Health Care & Social Assistance	68,100	63,700	+4,400
TOTAL	207,700	202,900	+4,400

Source: Nevada Department of Employment, Training and Rehabilitation.

## DISTRESSED OFFICE PROPERTIES

	Q4-11	Q3-11	Q4-10
Class A	698,000 sf	698,000 sf	677,000 sf
Class B	1,739,000 sf	1,723,000 sf	1,897,000 sf
Class C	2,725,000 sf	2,818,000 sf	2,834,000 sf
TOTAL	5,162,000 sf	5,239,000 sf	5,408,000 sf

## OWNER/USER SALES ACTIVITY

Owner User Space	2011 YTD	2010	2009
Space for Sale (sf)	1,015,000	1,444,000	910,000
Average Asking Price/SF	\$133	\$171	\$219
Space Sold (sf)	528,000	510,000	91,000
Average Price/SF	\$104	\$125	\$182

## INVESTMENT SALES ACTIVITY

Investment Space	2011 YTD	2010	2009
Space for Sale (sf)	1,125,000	1,504,000	891,000
Average Asking Price/SF	\$145	\$133	\$228
Average Cap Rate	9.1%	9.0%	7.8%
Space Sold (sf)	2,056,000	1,024,000	439,000
Average Price/SF	\$85	\$96	\$159
Average Cap Rate	6.9%	8.8%	10.1%

## OFFICE DEVELOPMENT PIPELINE

PROJECT	TYPE	SUBMARKET	SIZE	PRE-LEASING	COMPLETION
Horizon Ridge Professional Park	Class C	Henderson	21,690	N/A	2012
Federal Justice Tower	Class A	Downtown	129,000	100%	2012

MARKET COMPARISONS

OFFICE MARKET

TYPE	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	PLANNED CONSTRUCTION SF	WEIGHTED AVG ASKING RENTAL RATE
<b>AIRPORT</b>																
A	6	605,557	245,462	40.5%	-	0.0%	245,462	40.5%	35.5%	(3,882)	113,438	41,079	(38,921)	-	-	\$2.74
B	43	2,001,710	291,862	14.6%	35,719	1.8%	327,581	16.4%	16.0%	(6,467)	(10,989)	-	-	-	-	\$1.91
C	266	2,883,058	786,636	27.3%	19,918	0.7%	806,554	28.0%	28.4%	11,445	23,198	-	-	-	-	\$1.59
Total	315	5,490,325	1,323,960	24.1%	55,637	1.0%	1,379,597	25.1%	24.6%	1,096	125,647	41,079	(38,921)	-	-	\$1.87
<b>DOWNTOWN</b>																
A	5	807,588	65,460	8.1%	7,706	1.0%	73,166	9.1%	9.1%	(1,094)	2,130	-	-	129,000	-	\$2.59
B	32	2,273,742	323,341	14.2%	1,500	0.1%	324,841	14.3%	13.1%	(27,650)	246,408	-	300,000	-	-	\$2.02
C	80	1,102,048	135,183	12.3%	-	0.0%	135,183	12.3%	12.1%	(1,862)	10,046	-	-	-	-	\$1.37
Total	117	4,183,378	523,984	12.5%	9,206	0.2%	533,190	12.7%	12.1%	(30,606)	258,584	-	300,000	129,000	-	\$1.92
<b>EAST LAS VEGAS</b>																
A	9	1,351,642	282,361	20.9%	46,249	3.4%	328,610	24.3%	21.5%	(10,742)	(61,694)	-	-	-	-	\$2.83
B	19	1,409,555	475,794	33.8%	-	0.0%	475,794	33.8%	32.6%	(16,894)	(50,007)	-	-	-	-	\$1.23
C	141	2,404,834	601,577	25.0%	9,076	0.4%	610,653	25.4%	25.3%	(2,601)	5,820	-	-	-	-	\$1.34
Total	169	5,166,031	1,359,732	26.3%	55,325	1.1%	1,415,057	27.4%	26.3%	(30,237)	(105,881)	-	-	-	-	\$1.61
<b>HENDERSON</b>																
A	11	787,274	232,249	29.5%	25,220	3.2%	257,469	32.7%	31.7%	3,124	(154)	-	-	-	-	\$2.44
B	68	2,285,225	587,240	25.7%	26,238	1.1%	613,478	26.8%	26.3%	(15,774)	(236,999)	-	-	-	-	\$2.19
C	219	2,135,487	472,684	22.1%	2,104	0.1%	474,788	22.2%	21.1%	(19,985)	34,210	4,500	16,944	13,500	8,190	\$1.80
Total	298	5,207,986	1,292,173	24.8%	53,562	1.0%	1,345,735	25.8%	25.0%	(32,635)	(202,943)	4,500	16,944	13,500	8,190	\$2.09
<b>NORTH LAS VEGAS</b>																
A	-	-	-	n/a	-	n/a	-	n/a	n/a	-	-	-	-	-	-	\$-
B	8	200,796	79,473	39.6%	-	0.0%	79,473	39.6%	36.2%	(6,799)	13,519	-	-	-	-	\$1.67
C	49	426,417	90,207	21.2%	-	0.0%	90,207	21.2%	21.6%	1,822	(28,273)	-	-	-	-	\$1.53
Total	57	627,213	169,680	27.1%	-	0.0%	169,680	27.1%	26.3%	(4,977)	(14,754)	-	-	-	-	\$1.60
<b>NORTHWEST</b>																
A	21	1,709,415	742,706	43.4%	4,128	0.2%	746,834	43.7%	45.3%	27,002	69,156	-	200,000	-	-	\$2.27
B	82	2,988,470	650,189	21.8%	28,217	0.9%	678,406	22.7%	22.9%	(9,799)	(10,494)	-	-	-	-	\$2.18
C	281	2,907,930	754,574	25.9%	18,511	0.6%	773,085	26.6%	25.2%	(27,260)	(48,869)	-	-	-	-	\$1.82
Total	384	7,605,815	2,147,469	28.2%	50,856	0.7%	2,198,325	28.9%	28.8%	(10,057)	9,793	-	200,000	-	-	\$2.08
<b>SOUTHWEST</b>																
A	3	397,112	222,996	56.2%	-	0.0%	222,996	56.2%	56.2%	-	64,441	-	-	-	-	\$2.59
B	70	2,714,887	722,907	26.6%	52,959	2.0%	775,866	28.6%	28.7%	(572)	15,702	-	-	-	-	\$2.37
C	303	3,327,214	744,649	22.4%	42,415	1.3%	787,064	23.7%	23.6%	(2,705)	64,016	-	-	-	-	\$1.89
Total	376	6,439,213	1,690,552	26.3%	95,374	1.5%	1,785,926	27.7%	27.7%	(3,277)	144,159	-	-	-	-	\$2.19
<b>WEST CENTRAL</b>																
A	2	227,624	35,339	15.5%	-	0.0%	35,339	15.5%	15.5%	-	7,774	-	-	-	-	\$2.09
B	46	1,672,458	359,986	21.5%	-	0.0%	359,986	21.5%	21.1%	(6,372)	(23,242)	-	-	-	-	\$1.87
C	165	2,654,339	637,050	24.0%	2,069	0.1%	639,119	24.1%	23.7%	(9,563)	(71,082)	-	-	-	-	\$1.57
Total	213	4,554,421	1,032,375	22.7%	2,069	0.0%	1,034,444	22.7%	22.4%	(15,935)	(86,550)	-	-	-	-	\$1.69
<b>MARKET TOTAL</b>																
A	57	5,886,212	1,826,573	31.0%	83,303	1.4%	1,909,876	32.4%	31.6%	14,408	195,091	41,079	161,079	129,000	-	\$2.49
B	368	15,546,843	3,490,792	22.5%	144,633	0.9%	3,635,425	23.4%	22.9%	(90,327)	(56,102)	-	300,000	-	-	\$2.01
C	1,504	17,841,327	4,222,560	23.7%	94,093	0.5%	4,316,653	24.2%	23.8%	(50,709)	(10,934)	4,500	16,944	13,500	8,190	\$1.66
Total	1,929	39,274,382	9,539,925	24.3%	322,029	0.8%	9,861,954	25.1%	24.6%	(126,628)	128,055	45,579	478,023	142,500	8,190	\$1.95

QUARTERLY COMPARISON AND TOTALS

Q4-11	1,929	39,274,382	9,539,925	24.3%	322,029	0.8%	9,861,954	25.1%	24.6%	(126,628)	128,055	45,579	478,023	142,500	8,190	\$1.95
Q3-11	1,928	39,228,803	9,367,718	23.9%	294,361	0.8%	9,662,079	24.6%	25.0%	422,695	254,683	312,444	432,444	-	26,190	\$1.97
Q2-11	1,925	38,916,359	9,477,969	24.4%	266,009	0.7%	9,743,978	25.0%	25.3%	47,205	(168,012)	-	120,000	332,444	26,190	\$2.01
Q1-11	1,925	38,916,359	9,525,174	24.5%	312,812	0.8%	9,837,986	25.3%	24.6%	(215,217)	(215,217)	120,000	120,000	312,444	26,190	\$2.06
Q4-10	1,925	38,796,359	9,189,957	23.7%	349,015	0.9%	9,538,972	24.6%	24.6%	56,099	(552,585)	25,000	76,432	385,000	44,678	\$2.08



The amount of office space available for sale on an owner/user basis now stands at 1,015,000 square feet, lower than the 1,444,000 square feet available for sale at the end of 2010. The average asking price for owner/user space in 2011 was \$133 psf, a decrease of \$38 psf from the end of 2010. Significant owner/user sale offerings included 4300 W Tropicana Ave (348,000 square feet), the Oakey Office Building (100,625 square feet) and Las Vegas Corporate Center (67,000 square feet).

Properties available for sale on an investment basis decreased to 1,125,000 square feet from last year's 1,504,000 square feet. The average asking price for investment sales was \$145 psf, a \$12 psf increase from 2011 and an indication that strong sales over the past year have both knocked the less expensive properties off the market and left investment owners a bit more bullish about the future. Significant investment properties for sale included Nema Business Center (59,000 square feet), Executive Park (51,000 square feet) and Village at Russell Road (50,000 square feet).

Investment sales activity improved dramatically in 2011 over the past three years, with over 2 million square feet of office space trading at an average price of \$85 per square foot. Owner/user sales were comparable to 2010, but a distinct improvement when compared to 2009. The average cap rate declined for properties sold in 2011 versus properties sold in 2010, but the average cap rate for available properties has generally been on the rise.

Nothing can be easy, it seems. A perfectly respectable two quarter trend of positive news in the office market could not survive the fourth quarter and its traditional lull in activity. That the market's performance in the fourth quarter lagged behind its performance in the middle of this year was not a complete surprise, but it was certainly a disappointment. Still, some trends are undeniable. Investors are clearly interested in Southern Nevada's office product, especially the distressed properties. As these properties move into new hands, they will likely see some renovation and, most importantly, a return to competitiveness. This will keep a damper on asking rents, even if 2012 proves to be a year of expansion, but will also make more of Southern Nevada's office market accessible to tenants in need of tenant improvement dollars, which distressed properties cannot supply. The story of 2012 might turn out to be the reinvigoration of the Downtown submarket, which has for many years played second fiddle to the suburban submarkets in terms of office space. The gradual renovation of what will be Zappo's new corporate headquarters in downtown could dramatically change the perception that many businesses have of that submarket, and return it to a prominence it has not held for 30 years.



## 512 offices in 61 countries on 6 continents

United States: 125  
Canada: 38  
Latin America: 18  
Asia Pacific: 214  
EMEA: 117

- \$1.5 billion in annual revenue
- \$979 million square feet under management
- Over 12,500 professionals

### COLLIERS INTERNATIONAL | LAS VEGAS

3960 Howard Hughes Parkway  
Suite 150  
Las Vegas, NV 89109  
TEL +1 702 735 5700  
FAX +1 702 731 5709



**MANAGING PARTNER**  
Mike Mixer  
+1 702 836 3777  
mike.mixer@colliers.com



**RESEARCHER**  
John Stater  
+1 702 836 3781  
john.stater@colliers.com

This report and other research materials may be found on our website at [www.colliers.com/lasvegas](http://www.colliers.com/lasvegas). This quarterly report is a research document of Colliers International - Las Vegas, NV. Questions related to information herein should be directed to the Research Department at +1 702 836 3781. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof. ©2011 Colliers International



Accelerating success.